Illinois Commerce Commission

Resource Adequacy in MISO Zone 4
Pre-Workshop Comments
Of
Illinois Industrial Energy Consumers

November 30, 2017

I. Introduction

The Illinois Industrial Energy Consumers ("IIEC") appreciates this opportunity to provide pre-workshop comments on the subject of Resource Adequacy in MISO Zone 4 and the Illinois Commerce Commission ("ICC") Staff's Report on the same of November 1, 2017 ("Staff Report").

IIEC is an association of large industrial and institutional customers located in the State of Illinois. Within Illinois, its members annually consume approximately 13 billion kWh of electricity and employ approximately 90,000 people. Its members take delivery service from both Ameren Illinois within MISO and Commonwealth Edison Company within PJM. Several of its members are certified by the Illinois Commerce Commission ("Commission" or "ICC") as their own Alternative Retail Electric Supplier ("ARES"), have interruptible load that is registered with MISO as a Load Modifying Resource ("LMR") Demand Resource and/or have behind the meter generation facilities. As a group, IIEC has been an active participant in the MISO's stakeholder processes on behalf of its members since the inception of MISO and is active in regulatory proceedings before both the ICC and the Federal Energy Regulatory Commission ("FERC").

IIEC's members are unique in that energy costs are a significant part of their operating costs and for many of them the energy costs they incur as a result of their processes determines their ability to compete in the US and in global markets. As a result, they are critically interested in the receipt of reliable electrical service at the lowest reasonable cost. The members of IIEC believe this can be best achieved by allowing them to directly manage their acquisition of capacity, energy and ancillary services, through well functioning competitive electric power markets. In addition, while there have been occasional bumps in the road (e.g., the results for MISO Zone 4 from MISO's Planning Resource Auction ("PRA") for the 2015/2016 Planning Year), IIEC's members believe that the retail electricity market in Illinois, especially within the MISO footprint, has been very successful over the past decade at providing reliable electric service at the lowest reasonable cost. For IIEC's members, it is imperative that the market continue to do so. To this end, IIEC looks forward to the opportunity to participate in the Commission's forthcoming workshops on the issue of Resource Adequacy in MISO Zone 4.

In the comments that follow below, IIEC first offer suggestions with respect to the format of the Commission's first workshop regarding resource adequacy in MISO Zone 4 that is scheduled for December 7th. IIEC then addresses the background sections (Section I through VIII) of the Staff Report. These comments focus on certain additional facts and certain corrections to Staff's otherwise well written, balanced background summary. The most significant of these additional facts is that only a relatively small portion of the total capacity requirement for MISO Zone 4 is being acquired from the MISO Planning Resource Auction ("PRA"). Specifically, as detailed in the body of these comments, only 14.7% of the total capacity requirement for MISO Zone 4 in the MISO 2017/2018 was provided through the use of MISO PRA. The remainder of the capacity requirement was met through Fixed Resource Adequacy Plan ("FRAP") submissions or through "self-supply" using self schedules. In addition, we

point out that the Staff Report understates the estimated Local Clearing Requirement ("LCR")[1] for MISO Zone 4 as being 7,265 MW for the MISO 2018/2019 Planning Year. As detailed in the body of our comments below, the correct number is a much lower 5,383 MW.

Finally, IIEC's comments address the potential policy options presented to the Commission in Section IX of the Staff Report. As detailed in the body of these comments, IIEC does not believe there is a resource adequacy problem in MISO Zone 4 and that the existing competitive market forces and market structure should continue to be relied upon. It does not believe that the current capacity market structure in MISO Zone 4 needs to be altered by mandating the use of FRAPs by ARES or by having the Illinois Power Agency ("IPA") acquire capacity for all retail customers within the Ameren Illinois service territory. There is also no need to create a resource adequacy portfolio standard in Illinois. Nor is there a need to move Ameren Illinois from MISO to PJM. As explained in detail in the body of these comments, IIEC believes that these approaches would harm end-use customers in MISO Zone 4, not help them.

While IIEC opposes the foregoing approaches, IIEC does not oppose and generally supports pursuing other less radical ways to improve the liquidity and transparency of the forward capacity market in MISO Zone 4 and to improve price formation in MISO Zone 4. As explained in detail in the body of these comments, we specifically recommend pursuit of the following more modest reforms:

1. Improvement of the OMS MISO Survey;
2. Improvement of the lead time and transparency of generation suspension and retirement notices to MISO;
3. Development of forward capacity market price indices; and

[1] The Local Clearing Requirement for MISO Zone 4 is the portion of the total capacity requirement for MISO Zone 4 that must be sourced from either capacity resources located within MISO Zone 4 or capacity resources located outside of the MISO footprint that have firm interconnection and transmission service that terminates on the MISO border at MISO Zone 4.

4. Exploration of raising the maximum auction clearing price allowed in the MISO PRA.

II. The December 7, 2017 Workshop

IIEC recommends that the ICC conduct its December 7, 2017 workshop through a series of panel discussions. As we envision it, each panel member would be permitted 20 minutes to make a summary presentation of their positions. Then, time would be allowed for questions to the panel from the ICC and the ICC Staff regarding the presentation. If time permits, questions from the audience could be allowed as well. IIEC requests that it be allowed to have one of its representatives participate on one of the panels for the December 7th workshop. IIEC's presentation for the panel would summarize the most important points of the detailed comments provided herein. IIEC plans to participate in the workshop from the ICC's Chicago offices.

III. Staff Report – Background Information (Sections I through VIII)

IIEC appreciates the hard work put into the Staff Report. We generally find it to be a well written, balanced summary of background on the issue of resource adequacy in MISO Zone 4 and the concerns of certain stakeholders. However, there are a few additional facts that should be considered and a few misunderstandings that need to be addressed.

In Section II.C. of the Staff Report (Reliability Coordination and Resource Adequacy), it is noted that the North American Electric Reliability Corporation ("NERC") requires MISO to conduct an annual loss of load expectation analysis pursuant to Standard BAL-502-RFC-02 that provides a measure of the expected generation resources necessary to meet forecasted peak load throughout the year. This is correct and the analysis is performed for the entire MISO market footprint. However, it should be noted that the NERC standard in question applies to the ReliabilityFirst Corporation region, and not the SERC

Reliability Corporation region in which MISO Zone 4 is located. In addition, Standard BAL-502-RFC-02 is only a reporting requirement that provides a common framework for analyzing, assessing and documenting resource adequacy. In itself, this reliability standard does not impose minimum resource adequacy requirements on Load Serving Entities ("LSEs").[2] Those requirements are instead imposed by Module E of the MISO Tariff.

Section II.C of the Staff Report also discusses the submission of a FRAP and "self-supply" as two of the options available to LSEs to comply with MISO's resource adequacy requirements besides acquiring capacity from the MISO PRA. The Staff Report suggests that the FRAP and "self-supply" options are the most commonly used by LSEs that are traditionally regulated. It also suggests ARES are more likely to use the MISO PRA than the FRAP or "self-supply" options. Finally, the section includes a table, titled "Zone 4 Planning Resource Summary," that provides the MISO Zone 4 PRA results and parameters for the 2014/2015 through 2017/2018 Planning Years. However, a point needs to be clarified with respect to the table.

Specifically, while the table identifies the total amount of capacity that was utilized in a FRAP in Zone 4 during the four most recent MISO Planning Years, the table does not identify the total amount of capacity that used the "self-supply" option instead of the FRAP option. An LSE that uses owned generation or bilateral purchase contracts to meet its MISO resource adequacy requirements can submit those resources to MISO by using either the FRAP or "self-supply" option, not just the FRAP option. In fact, if the "self-supply" option is used with an offer price of zero (commonly referred to as a "self scheduling), it is essentially functionally the same as a FRAP and is actually more commonly used by traditionally regulated LSEs within MISO than the FRAP option.[3] Therefore, the FRAP amounts identified

[2] 134 FERC ¶ 61,212 (2011) at paragraphs 31 and 33.

[3] In the 2017/2018 PRA, a total of 49,463 MW of resourced were submitted in a FRAP and a total of 79,554 MW were submitted in self-schedules. See *2017/2018 Planning Resource Auction Results*, Resource Adequacy

in the Zone 4 Planning Summary table in Section II.C of the Staff Report only represent a portion of the total amount of capacity that is either owned by LSEs or purchased through bilateral contracts by LSEs. For example, in the 2017/2018 PRA, in Zone 4, in addition to 712 MW of resources being submitted in a FRAP, another 7,723 MW of resources were submitted through self schedules.[4] As a result, for the 2017/2018 Planning Year, 8,435 MW (85.3%) of the 9,894 MW of total capacity resources required for Zone 4 (the Planning Resource Margin Requirement ("PRMR")) came from capacity resources located within Zone 4 that were either submitted via the FRAP option or self-scheduled using the "self-supply" option.[5] Only 1,459 MW (14.7%) of the total required capacity amount for Zone 4 was acquired from the PRA.

Therefore, while it might generally be said that ARES are more likely than traditionally regulated LSEs to use the MISO PRA, actual data shows that, in practice, there is currently only limited reliance on the MISO PRA in Zone 4. This is important, because much of the attention in recent discussions has been about shortcomings in the MISO PRA, when, in fact, relatively little of the total capacity obligation in MISO Zone 4 is met using the MISO PRA.

In addition, there is an error in one of the phrases in Section II.C of the Staff Report. Specifically, on page 5 of the Staff Report, the phrase "with at least 5,839 MWs coming from resources that are either located within the zone or from resources external to the zone that have firm transmission into the zone (LCR)" should be "with at least 5,839 MWs coming from resources that are either located within the zone or from resources external *to MISO* that have firm transmission into the zone (LCR)." Under the current MISO Tariff, it is only External Resources, which are capacity resources located

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Subcommittee, May 10, 2017 (https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=249648) at Slide 5.

[4] See *2017/2018 Planning Resource Auction Results*, Resource Adequacy Subcommittee, May 10, 2017 (https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=249648) at Slide 5.

[5] See *2017/2018 Planning Resource Auction Results*, Resource Adequacy Subcommittee, May 10, 2017 (https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=249648) at Slide 5.

outside of the MISO footprint, having firm transmission service that terminates on the MISO border at Zone 4 that are allowed to count toward the Local Clearing Requirement ("LCR") – not capacity resources located in other MISO zones.

In Section VI of the Staff Report (Resource Adequacy, Transmission Import Capability and MISO's MVPs), the last sentence of the second paragraph states "[t]he LCR for the 2018-19 PRA is tentatively set at 7,265 MWs." This is incorrect. The 7,265 MW LCR estimate for Zone 4 for 2018/2019 is under MISO's PRA CIL, CEL and LCR Alignment proposal.[6] MISO has decided to delay filing that proposal until March 2018 and, as a result, it will not apply to the MISO 2018/2019 Planning Year.[7] Therefore, the LCR values for the 2018/2019 PRA will be calculated under the current MISO Tariff method. Under the current MISO Tariff method, the estimated LCR value for Zone 4 for the 2018/2019 Planning Year is 5,383 MW.[8]

In Section VII.A of the Staff Report (MISO's Capacity Market), a sentence in the second paragraph indicates "MISO's PRA allows competing generators owned by traditional state-regulated utilities to offer their capacity into MISO's auction at prices that do not reflect the true marginal cost of that capacity." IIEC takes issue with the use of the term "true marginal cost." Offers from existing generating units, regardless of whether owned by state-regulated utilities or other market participants, are typically based on the short-run marginal cost to provide that capacity. The short-run marginal cost to provide capacity is the fixed cost (less forecasted energy and ancillary service margins) that could be avoided by shutting down the generation facility for the coming planning year. Short-run marginal cost inherently excludes sunk costs such as depreciation and return on existing investment. It does so because those costs cannot be avoided by shutting down the generating unit for the coming planning

[6] See *PRA, CIL, CEL, and LCR Alignment*, Loss of Load Expectation Working Group, August 2017 (https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=255968) at Slide 9.
[7] See *Resource Adequacy Locational Reforms*, Proposal Overview, November 2017 (https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=262843) at Slides 20-24.
[8] See *PRA, CIL, CEL, and LCR Alignment*, Loss of Load Expectation Working Group, August 2017 (https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=255968) at Slide 9.

year. They are costs the generation facility will have regardless of whether it provides capacity on a going-forward basis. The issue certain stakeholders have is that they want greater assurance of the opportunity to recover sunk costs from the wholesale capacity market regardless of the balance between supply and demand in that market. However, the claim that the capacity offers in the MISO PRA from generation facilities owned by traditional state-regulated utilities do not reflect the true marginal costs of those generating facilities is not correct. The true marginal cost for capacity from these generation facilities is their short-run marginal cost to provide capacity, which does not include any sunk costs.

IV. Staff Report – Potential Policy Options (Section IX)

Section IX of the Staff Report identified the following four options that the State of Illinois might pursue in response to MISO's May 1, 2017 letter to Governor Rauner:

1. Rely on existing competitive forces and market structures;
2. Impose additional capacity requirements on LSEs;
3. Create an Illinois resource adequacy (or reliability) portfolio standard; or
4. Reconfigure RTO participation.

IIEC provides comments on each of these below.

A. Rely on Existing Competitive Forces and Market Structures

IIEC recommends this general approach. In IIEC's opinion, based on the evidence, there is no resource adequacy problem in MISO Zone 4. The existing market has successfully provided resource adequacy in the Ameren Illinois service territory for over 15 years.[9] Furthermore, outside of the 2015/2016 Planning Year, it has been able to do so at a reasonable price based on the balance between supply and demand that has existed.[10] In addition, as the Staff Report notes, MISO's most recent 2017 OMS MISO Survey results suggest that the Zone 4 capacity requirement will be met with a surplus of 400 to 1,500 MW through 2022.[11] It is important to also consider that in addition to drawing on this projected surplus, Zone 4 will also be able to import capacity from the rest of MISO, up to the difference between the PRMR and the LCR values for Zone 4. For the 2018/2019 Planning Year, that ability to import capacity from the rest of MISO is expected to be approximately 4,600 MW.[12]

In addition, as the Staff Report recognizes, much of the retail load in Zone 4 is already covered by the FRAP option and the "self-supply" using a self schedule option. It does not rely on the MISO PRA.[13] However, it is important to note that the Staff Report has underestimated the total amount of FRAP and other "self-supply" capacity in Zone 4 by only identifying the 712 MW to 910 MW of capacity

[9] Retail customer choice became fully available in the Ameren Illinois service territory on May 1, 2002. Ameren Illinois, ARES and the Illinois Power Agency have ever since relied upon the wholesale electric market to meet resource adequacy requirements. The last time resource adequacy was seriously challenged in the Ameren Illinois service territory was prior to the introduction of retail customer choice in Illinois during the very late spring and summer of 1998 when a large number of utility-owned nuclear generation facilities in Illinois and elsewhere in the Midwest were out of service due to Nuclear Regulatory Commission compliance-related issues.

[10] In MISO's 2015/2016 PRA, the resulting auction clearing price for capacity for MISO Zone 4 was $150 per MW-day. In response to this outcome, complaints were filed at FERC in Docket Nos. EL15-70-000, EL15-71-000, EL15-72-000 and EL15-82-000 regarding the reasonableness of the outcome. On December 31, 2015, FERC issued an order in those proceedings that required changes to the way import capability calculations and default conduct offer caps are implemented by MISO for its PRA (153 FERC ¶ 61,385).

[11] Staff Report at 10 and 17.

[12] Assuming a 10,000 MW PRMR for Zone 4 and an estimated LCR value of 5,383 MW.

[13] Staff Report at 17.

for Zone 4 that was used in a FRAP over the past four MISO Planning Years.[14] As discussed earlier in Section III of these comments, owned and bilaterally-contracted capacity includes not just the FRAP amounts indentified in the Zone 4 Planning Resource Summary table of Section II.C of the Staff Report, but also the capacity that is self-scheduled into the MISO PRA. Specifically, as we noted earlier in Section III of these comments, for the 2017/2018 Planning Year, 8,435 MW (85.3%) of the 9,894 MW of total capacity resources required for Zone 4 (the PRMR) came from capacity resources located within Zone 4 that were either submitted via the FRAP option or self-scheduled using the "self-supply" option.[15] Only 1,459 MW (14.7%) of the total required capacity amount for Zone 4 was drawn from the PRA. Therefore, only a relatively small portion of the total Zone 4 capacity need is currently being acquired from the MISO PRA.

While IIEC does not believes there is a resource adequacy problem in MISO Zone 4, IIEC agrees that there are modest market reforms that could be layered onto the current market structure to improve its robustness without drastically altering it. In particular, IIEC believes these reforms should be geared toward improving the liquidity and transparency of the forward bilateral market for capacity in MISO Zone 4 and potentially increasing the headroom above the cost of new capacity that is afforded by the maximum auction clearing price allowed in the MISO PRA. Specifically, IIEC believes the best course of action is to maintain the current capacity market structure for MISO Zone 4, while pursuing the following modest market reforms:

1. **Improve the OMS MISO Survey**

   Issue: MISO has made some recent improvements in the OMS MISO Survey by beginning to incorporate some of the generation in its interconnection queue in its summary bar charts and by modifying some of its terminology. However, the bar chart

[14] Id.
[15] See *2017/2018 Planning Resource Auction Results*, Resource Adequacy Subcommittee, May 10, 2017. (https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=249648) at Slide 5.

summaries presented in the survey[16] continue to fail to make abundantly clear the amount of capacity that can be imported and exported from each MISO zone, as they only report the projected total capacity need of each zone versus the projected capacity availability for each zone. In addition, it is not clear at this time whether MISO is including a large enough portion of planned generation capacity from its interconnection queue. Finally, IIEC understands that Illinois ARES are generally not currently surveyed as part of the OMS-MISO Survey process and that instead responses from Ameren Illinois are relied upon with respect to LSEs within the Ameren Illinois service territory.

Recommendation: Further improve the annual OMS-MISO Survey such that it provides a very good 5-year forward looking projection of supply and demand for capacity that is clearly and coherently communicated with minimal risk of misinterpretation. This should include providing a clear indication of the amount of capacity that can be exported and imported from each MISO zone. It should also include further consideration with respect whether to the proper amount of planned generation capacity from MISO's interconnection queue is being included in the survey. Finally, LSE responses from Illinois ARES should be sought in the survey process rather than relying on Ameren Illinois' responses alone.

2. Improve the Lead Time and Transparency of Generation Suspension and Retirement Notices to MISO

Issue: MISO is currently working on a proposal to change its Attachment Y process for providing notice to MISO of the suspension of operation or retirement of existing generation resources. Currently, a 26 week notice is required for operable generation resources. The notice is kept confidential by MISO until and unless either: (i) MISO determines the generation resource may need to continue to operate in order to maintain transmission reliability or (ii) the suspension or retirement becomes publicly disclosed by someone other than MISO. The current Attachment Y process provides very little notice to the market with respect to forthcoming changes in capacity supply. This is contrary to what is needed to help provide for a liquid and transparent forward market for capacity. Such liquidity and transparency is needed to help ensure prices in the forward market for capacity reasonably reflect the future expected balance between supply and demand for capacity in order that those prices send the proper price signal to the market.

MISO's latest proposal to change the Attachment Y process would largely eliminate the distinction between suspension and retirement.[17] Under this proposal, 26 week notice would be provided for the cessation of operation for 2 months or more by operable generation resources. Interconnection rights would be preserved for the generation resource during the cessation of operation. The cessation of operation would last until the earlier of: (i) the generation owner rescinding its cessation of operation; (ii) the

[16] See *2017 OMS MISO Survey Results*, July 2017 (https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=254164) at Slides 14 and 15.
[17] See *Attachment Y Tariff Changes: Attachment Y and PRA Alignment*, Planning Advisory Committee, November 15, 2017 (https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=263041).

generation owner waiving its right to rescind its cessation of operation; or (iii) 36 months of cessation of operation passes.[18] Under the first of these three situations, the generation resource returns to service. Under the latter two situations, the generation is considered by MISO to be retired. During the cessation of operation period of up to 36 months, the Attachment Y notice would be kept confidential unless MISO identifies that the generation resource may need to continue to operate to maintain transmission reliability or the cessation of operation becomes publicly disclosed by someone other than MISO.[19] When the unit is considered by MISO to be retired, either due to the generation owner waiving its right to rescind the cessation of operation or the 36 month cessation of operation period passing without a return to service, the retirement will be publicly disclosed by MISO.[20]

IIEC does not believe MISO's latest proposal adequately addresses the transparency issues within the current Attachment Y process. Lack of transparency inhibits the ability of prices in the forward bilateral market for capacity to reflect the expected future supply situation.

Recommendation: Increase the notice time and eliminate the confidentiality requirement associated with MISO's Attachment Y suspension and retirement request process.

IIEC believes consideration needs to be given to lengthening the notice for cessation of operation to 52 weeks and to elimination of the confidentiality of Attachment Y notices entirely.[21] A notice period of 52 weeks would provide more time for the forward market to react to the information and provide more time for new resources such as demand response to enter the market before the start of a Planning Year. Elimination of the confidentiality requirement would help to ensure the forward bilateral capacity market has the latest available information with respect to the future expected balance between supply and demand for capacity in MISO as a whole and in MISO Zone 4 in particular.

3. **Development of Forward Capacity Market Price Indices**

Issue: The forward bilateral market for energy blocks and financial swaps is currently well supported by industry press-published surveys of forward electric energy market prices at various trading hubs, including the Illinois Hub within MISO. These surveys support the bilateral forward electric energy and financial swap markets by greatly improving transparency in those markets. The bilateral forward capacity market currently lacks such support.

[18] See Id.
[19] See Id. at Slide 10.
[20] See Id. at Slide 10.
[21] IIEC would note that it is not opposed to keeping Attachment Y-2 submissions confidential. Attachment Y-2 submissions are permitted under the MISO Tariff in order to allow a generation resource to explore whether its continued operation might be necessary for transmission reliability and necessitate it entering in into a System Support Resource ("SSR") contract with MISO.

Recommendation: Work with industry trade press to provide for regular reporting with respect to the forward market prices for capacity bilaterally traded in MISO Zone 4.

MISO, Ameren Illinois and/or the ICC could work with industry trade press and stakeholders to help jump start the collection and compilation of the information necessary for industry trade press to publish frequent periodic survey results on weighted average trading prices for capacity for MISO Zone 4 for future MISO Planning Years.

4. **Explore Raising the Maximum Auction Clearing Price Allowed in the MISO PRA**

Issue: Economic theory says that over time as a market matures and supply and demand come into balance, market prices will gravitate toward long-run marginal cost. In the capacity market, this generally means that as supply and demand come into balance and lower cost alternatives such as new demand response are consumed, the market price for capacity will gravitate toward the amortized Cost of New Entry ("CONE") of a natural gas-fired combustion turbine ("CT") generator or combined cycle ("CC") generator, less the expected energy and ancillary service margins that generator could earn.[22] This value is commonly referred to as the "net CONE" of a CT or CC generator. In contrast, the "gross CONE" of a CT or CC generator excludes a deduction for the energy and ancillary service margins that the generator would be expected to earn.

The MISO PRA currently allows capacity market prices as high as the gross CONE of a CT generator (approximately $260 per MW-day). Since this is higher than the net CONE of a CT generator, the current maximum MISO auction clearing price allowed in the PRA is theoretically capable over an extended period of time of providing capacity payments on average equal to the net CONE of a new CT. However, the difference between the risk of LSEs (and their customers) paying gross CONE in the MISO PRA and the certainty of those LSE's (and their customers) paying net CONE for investment in new generation may not be sufficient to support new investment in generation when it is warranted. This could be potentially addressed by raising the maximum auction clearing price of the MISO PRA to some multiple of net CONE in order to increase the price risk to LSEs (and their customers) for over reliance on the MISO PRA. However, any such change would need to be done with great caution to ensure capacity suppliers with substantial market power could not exploit their market power in order to reap a windfall from raising the maximum auction clearing price allowed in the MISO PRA.

Recommendation: Cautiously explore the possibility of raising the maximum auction clearing price allowed in the MISO PRA from the gross CONE for a CT generator (currently approximately $260 per MW-day) to some greater value.

[22] It should also be noted that capacity sources that have been introduced for reasons other than resource adequacy must also be exhausted in order for prices to gravitate toward net CONE. For example, renewable resources are not necessarily pursued to provide capacity. However, when pursued in large quantities, as they have been over the past decade or so, as a byproduct, they can provide a significant amount of new capacity to the market.

B. Impose Additional Capacity Requirement on LSEs

IIEC generally opposes any proposal to place additional capacity requirements on LSEs. In particular, IIEC is opposed to either requiring ARES to submit FRAPs to MISO or having the IPA procure the capacity for all customers within the Ameren Illinois service territory in order to submit it in a FRAP to MISO.

Requiring all ARES to procure their capacity on a forward basis and submit it in a FRAP to MISO would result in the loss of the market power protections that ARES and their customers have under the current market structure. Furthermore, it does not recognize that self-scheduling capacity into the MISO PRA is the more commonly used than the FRAP option for "self-supply" of capacity in MISO. Finally, it may unduly inhibit the ability of retail customers to manage their cost of capacity within their risk tolerance by limiting how soon prior to the MISO PRA they could bilaterally contract for capacity.

Today, when an ARES (and its retail customers) evaluate a forward bilateral capacity price offer, they still have the alternative of the MISO PRA to fall back upon if the bilateral offer price they have received from a capacity supplier is unreasonable. In addition, the MISO PRA price is subject to numerous protections under Module D of the MISO Tariff, which act to help ensure that no market participant can exploit any market power they may have in the MISO PRA. Capacity suppliers are aware of this and, as a result, this acts to discipline their pricing of capacity in the forward bilateral market such that they are much less able to potentially exploit any market power they may possess. If ARES (and their retail customers) are required to acquire their capacity bilaterally on a forward basis and not allowed to use the MISO PRA, capacity suppliers will be aware of this and will be far less restrained from exploiting any market power they may have since they know their buyers must purchase their capacity

bilaterally and may not use the MISO PRA. This is particularly an issue in MISO Zone 4, given Dynegy's ownership of 6,500 MW (46%) of the 14,117 MW of capacity in MISO Zone 4.[23]

With respect to the use of a FRAP, as noted earlier in these comments, self-scheduling of capacity into the MISO PRA is more commonly used for "self-supply" than the FRAP option. Forcing ARES to use the FRAP option would further reduce their flexibility in complying with MISO's resource adequacy requirements and act to unduly increase costs for retail customers within Ameren Illinois' service territory.

With respect to inhibiting the ability of retail customers to self-manage their cost for capacity within their risk tolerance, these retail customers can today actively weigh the current forward bilateral market price for capacity versus the risk of holding off to a future bilateral contracting date versus waiting for the MISO PRA. This allows them to better manage their cost for capacity within their risk tolerance, given constantly changing market conditions. Prohibiting the use of the MISO PRA by ARES would reduce the ability of these customers to manage their cost for capacity, as would requiring them to bilaterally contract for capacity well in advance of the MISO PRA.

Having the IPA bilaterally forward contract for the capacity needs of all customers in the Ameren Illinois service territory and submit it in a FRAP to MISO would be even more problematic than requiring ARES to bilaterally forward contract for capacity and submit it in a FRAP to MISO. Just like with the situation with ARES, the IPA's current bilateral capacity procurements inherently benefit from capacity supplier pricing discipline, because the IPA is not required to bilaterally contract for capacity and in its proposed procurement plan it would be allowed to purchase some or all of its capacity needs from the MISO PRA. In addition, it should be noted that adding the market power protections that are found in Module D of the MISO Tariff to the IPA's forward capacity procurement is not feasible. This is so

[23] Staff Report at 8.

because the State of Illinois cannot compel any capacity resource to sell capacity to the IPA or any other wholesale buyer of capacity in Illinois. As a result, even if the IPA added market power protections to its capacity procurement process, those provisions could be bypassed by capacity suppliers by them physically withholding capacity from the IPA's procurement.

In addition, having the IPA bilaterally forward contract for capacity for all retail customers in Ameren Illinois' service territory would completely eliminate the ability of large customers like IIEC members to manage their cost of capacity within their risk tolerance, through a combination of their own forward bilateral contracting and use of the MISO PRA. It would also eliminate their ability to self-supply their capacity needs by taking interruptible service (through an ARES using the MISO LMR Demand Resource provisions) or utilizing their own behind the meter generation facilities. The business models of many of IIEC's members critically depend on this self-supply of capacity and many of them have made significant investments in order to accomplish that self-supply of capacity. Furthermore, the elimination of this self-supply option would likely have a chilling effect on the future addition of highly efficient Combined Heat and Power ("CHP") generation by customers in the Ameren Illinois service territory.

C. Create a Illinois Resource Adequacy Portfolio Standard

IIEC also opposes the creation of an Illinois resource adequacy portfolio standard to compensate resources for the alleged value they have in assuring long-term resource adequacy. This approach would amount to paying an outright subsidy to this generation that would be very difficult to end once started. Moreover, payment of a subsidy to this generation would act to continue the cascade of subsidies that have already been put into place, including Federal Production Tax Credits for wind generation, the Illinois' Renewable Portfolio Standard, the Illinois' Zero Emission Standard and other similar standards. These growing subsidies are putting more and more costs on IIEC members and acting to undermine their ability to compete globally and sustain their operations within Illinois. IIEC is opposed to the creation and expansion of mandates and subsidies which can adversely affect the market for electric power and unnecessarily increase costs for all Illinois end-use customers.

The existence and expansion of these subsidies is also an antithesis to the competitive market. The increasing imposition of statutory mandates and subsidies represent a significant return to the non-competitive world that existed prior to the enactment of the Customer Choice and Rate Relief Law of 1997, and the approval of gas transportation by the Illinois Commerce Commission where end-use customers were required to pay for power and energy from generators owned by the electric utilities or to purchase gas exclusively from local gas distribution utilities. However, it would be worse in this case because it would be without the regulatory protections for end-use customers that were a part of that world.

D. Reconfiguring RTO Participation

IIEC also at this time opposes changing Ameren Illinois' RTO participation from MISO to PJM. In particular, this approach is infeasible because of the exit costs that would currently have to be paid to MISO. These would include not just Ameren Illinois' obligation to MISO for MISO's facilities, but also for its share of the $6 Billion in MISO Multi-Value transmission projects[24], which Ameren Illinois' customers would not be able to benefit from if Ameren Illinois left MISO for PJM. IIEC would also note that it does not consider PJM's current RPM capacity market to be superior to that of MISO. IIEC's members located within the ComEd service territory over the past decade have paid significantly more for electric power than its members located in Ameren Illinois' service territory, due to the higher capacity market prices in the PJM market that result from PJM's Reliability Pricing Model ("RPM") capacity market. They have done so despite not receiving electric service that has been any more reliable than that provided within the Ameren Illinois service territory.

[24] See https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=181351.

V. Conclusion

IIEC once again thanks the ICC for an opportunity to provide comments on the subject of Resource Adequacy in MISO Zone 4. As discussed in detail above, IIEC does not believe there is a resource adequacy problem in MISO Zone 4. Nor does it believe that the current capacity market structure in MISO Zone 4 needs to be altered by mandating the use of FRAPs by ARES or by having the IPA acquire capacity for all retail customers within the Ameren Illinois service territory. There is also no need to create an Illinois resource adequacy portfolio standard. Nor is there a need to move Ameren Illinois from MISO to PJM. However, as detailed earlier in Section IV.A of these comments, IIEC does support pursuing modest reforms to improve the liquidity and transparency of the forward capacity market in MISO Zone 4 and exploring the possibility of raising the maximum auction clearing price allowed in the MISO PRA. We look forward to discussing our views further at the Commission's forthcoming workshop that is scheduled for December 7th and would be glad to address any questions regarding our comments.

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